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Agricultural-Food Policy Review:

Perspectives for the 1980's

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Preface

The nine articles collected here provide background for discussions on new legislation to replace the Food and Agriculture Act of 1977, which expires this year. New legislation will be influenced by the much altered nature of U.S. farming.

- Almost all easily available cropland, including that once idled by farm programs, is now back in production. Millions of acres of potential cropland remain, but are not as productive or need to be improved (cleared, drained, irrigated, for example).
- The long period of overproduction, burdensome surpluses, and depressed farm prices now seems to be behind us, although there may still be occasional years of excess production.
- International food needs now heavily influence the well-being of U.S. agriculture in any given year.
- The character of U.S. farming has changed as fewer but larger farms now produce most of our total agricultural production.

Agricultural-Food Policy Review is an occasional publication that addresses important policy and legislative matters pertaining to agriculture and food.

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<p><i>Abstract:</i> The contemporary "farm problem" is no longer low incomes, which was the major problem for 50 years and the problem that many current farm programs were enacted to remedy. That is the observation that emerges from this review of the evolution of farm policies, the transition period of the seventies, the likely economic environment of the eighties, and a profile of today's farm sector—farm numbers, sizes, types, incomes (and income sources), and wealth. The changed nature of the farm problem has significant implications for current programs and future policies for the farm sector.</p>	
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<p><i>Abstract:</i> High and persistent rates of inflation produce hidden conflicts among farmers, between farmers and consumers, and between the poor and the wealthy. Government programs that seek to cushion the impact of inflation on special groups often contribute to more inflation. Inflation's primary impacts on farming are to: increase nominal farm product and input prices, stimulate purchases of capital inputs, and strengthen the relative economic advantage of wealthier and higher income landowners. Inflation elicits pressures for increased farm product support prices, efforts by many farmers to expand their operations, and greatly increased demands for credit to finance that expansion.</p>	

Agriculture's Production Potential. *Austin S. Fox and Kenneth C. Clayton* 70

Abstract: The United States has the physical potential for crop production in the eighties to satisfy domestic food needs, export needs, and the production of grain-based alcohol fuels. To meet the projected needs, crop acreage will likely have to expand. The exact amount of expansion needed will depend on the ultimate magnitude of the demands involved and on the productivity of the resources used. At least a part of the increased acreage will require investments in drainage, clearing, and irrigation. For farmers to bring adequate acreage into production, the prices they receive for their crops will probably have to increase substantially over the decade. Other farm inputs (water, fertilizer, pesticides) seem to be in sufficient supply for production to expand.

Transporting Food and Agricultural Products. *William W. Gallimore* 82

Abstract: The existing transportation network for U.S. farm products, although strained, should be able to handle expected increases in farm production through the eighties. Ports should be adequate, although more congested. Storage capacity should not be a problem. Problems in some areas will be intensified because of rail line abandonments or lack of access to water transportation. Much of the expanded production will be in areas where transportation problems are most acute. Producers who have trouble getting railcars or whose service is curtailed or abandoned will pay the most for transportation and receive the least for their product.

International Trade Policy Issues. *Philip L. Paarlberg and Alan J. Webb* 96

Abstract: Increasingly tight supplies of agricultural commodities in the eighties offer the United States an opportunity to reevaluate its agricultural trade policy. The United States faces the option of continuing to pursue an open market policy, or redirecting its market conduct through the use of bilateral trade agreements, export embargoes, and marketing boards. Tighter supplies imply a greater role for the United States in meeting the food needs of developing nations. This Nation will have an interest in designing a food policy with equitable sharing of food aid responsibilities.

Commodity Programs and Policies. *Milton H. Erickson, Kenneth C. Clayton, James Johnson, and Keith J. Collins* 108

Abstract: Market stability will probably become a major policy concern in the eighties. Many direct payment programs will be critically scrutinized. Equity of programs within the agricultural sector and in its

relationship to other sectors will grow in importance. Protecting natural resources will influence current and future program design. Marketing quotas and allotments, although effective in promoting higher farm incomes, have inherent side effects that will invite scrutiny. Loan programs, serving as a cash flow and marketing management device for many farmers, will most likely be continued. Other commodities' (sunflower, hogs, cattle) need for Federal programs will likely be debated.

The Setting for New Food and Agricultural Legislation. Douglas E. Bowers 120

Abstract: Events such as the grain embargo against the Soviet Union and escalating production costs have caused farmers to increase their demands for Government aid. Within Government, however, the influence of agricultural groups has declined over the past decade as other interests have asserted a greater role in agricultural policy-making. Among farm groups themselves, specialized commodity associations have been winning power at the expense of the general farm organizations. The outlook for new agricultural legislation depends on whether farmers can reach a unified position and on the extent to which inflation, the budget, conservation, structure, and other issues are major questions when a new bill is considered.

Food and Agricultural Policy: A Suggested Approach. John E. Lee 136

Abstract: Current U.S. food and agricultural policies comprise an amalgamation of individual, often conflicting, programs and policies, many conceived 50 years ago. The subsequent industrialization of agriculture, ensuing changes in the U.S. food system, and the current tight world food outlook make this a good time for a fundamental reevaluation and reformulation of the objectives of agricultural policies. This article suggests an approach and some criteria for that. The alternative is to continue the incremental patching and mending of existing policies. But even that approach will benefit from a clear articulation of the policies' ultimate goals.

Foreword

This collection of articles explores the direction being taken by U.S. agriculture and the associated implications for people and for policy. Each article draws a perspective on an aspect of the economic and policy setting that is important to the consideration of legislation to replace the Food and Agriculture Act of 1977. That act expires in 1981. The topics move in sequence from the global food economy to specific domestic policy issues, and conclude with a suggested policy framework for treating the relevant issues in concert. This provides an overview of the emerging economic conditions of international and domestic agriculture and some policy issues implied by those conditions.

The lead paper sets the stage for the others by examining the tightening global and domestic balance of supply and demand for food. With food demand in the rest of the world likely to continue to increase faster than production, agricultural trade must increase to fill the shortfalls. The United States is the major agricultural exporter; the implication is for continued growth in volume and value of U.S. exports as other countries grow increasingly dependent on this Nation for food. Most of the better land on U.S. farms is now back into production. Continued modest growth in domestic demand and strong growth in export demand may outstrip the potential for increased farm output coming from yield increases over the next decade. U.S. agriculture is thus in transition: from 60 years of chronic oversupply and depressed prices and all the attendant adjustment problems to a new era characterized by production encroaching onto increasingly marginal and fragile lands, rising production costs and food prices, and other problems and issues attending relative scarcity. The paper discusses some of the economic and policy implications posed by such a transition.

The second paper addresses the changing reality of the U.S. farm sector, examining the structural and performance characteristics of the farm sector, its firms, and associated households. A profile emerges showing a sector with a large number of firms and households nominally engaged in agricultural production but collectively producing little of the total farm product and receiving little from traditional farm programs. But the people involved are usually not poor. Sharing the name "farmer" with these people, but with few other similarities, is a small number of producers who control most of the farm resources, produce most of the output, receive most of the benefits of Federal farm programs, owe most of the farm debt, and buy most of the farmland sold each year, making them the foremost entrepreneurs of farm consolidation and structural change. The average farmer in this latter group, together about 20 percent of the total, has achieved most economies of size, has income considerably above the median nonfarm family income, and has returns from farming and from real gains in asset values which exceed comparable rates of current incomes and capital gains from common stocks and bonds. The paper examines the implications of this profile, one that is far different from that which gave rise to the farm policies and programs of the past 50 years.

The eighties are likely to be characterized by continuing concern about the pervasive influences of inflation and its uneven consequences. No perspective on the decade would be complete without taking note of this phenomenon. The third paper explains

why several food and agricultural policy issues have their roots in inflation or are exacerbated by it. The paper examines the impact of inflation on the financial behavior and well-being of farmers and others and describes how inflation changes the consequences of several public policies including tax, credit, and farm commodity policies. Inflation is of particular significance to agriculture because of its effect on the value of the primary farming asset, land.

With the global and domestic setting provided by the first three papers, the fourth and fifth papers examine two different aspects of our capability to respond. The fourth paper looks at factors likely to determine our capacity to produce agricultural products. The supply of cropland and incentives needed to bring additional land into production are closely examined. Millions more acres of land are available, but development and production costs could only be met by higher commodity prices.

Transportation will not be the bottleneck that limits exports in the years just ahead, according to the fifth paper. Serious problems face the three major modes of agricultural transportation (higher fuel prices and deteriorating roads and bridges for trucks, limited lock and dam capacity on the waterways, and rolling stock shortages and declining railbed mileage and condition for railroads). But such problems could be alleviated with longer term planning, investment, and changes in regulatory policies. Port capacity is apparently adequate for the next 5 years to handle the expected increases in export demand, and the internal transportation system will manage to get commodities to ports, albeit at higher costs for some farmers. Commodity storage capacity has increased greatly in recent years, primarily on farms, adding flexibility to the transportation system. Storage near sites of production rather than in central terminals and ports improves harvesttime flexibility for farmers but increases the difficulty in responding to short-term fluctuations in export demand.

The sixth paper focuses on food aid and trade policy issues likely to be important during the eighties. It notes the current state of protectionism in international grain and soybean markets and points out that these policies vary widely by country. The net effect is to reduce responsiveness of consumption or production to price changes, thereby adding instability in international prices—instability that must be absorbed by U.S. producers and consumers. The feasibility of a U.S. export marketing board is also examined. Under the conditions postulated, a marketing board would probably exacerbate price variability and reduce producer incomes. The pros, cons, and viability of several international food aid proposals are also analyzed.

The emerging supply and demand conditions and the changing makeup of U.S. agriculture profiled in the first two papers imply that farm and commodity policies may need to address a different set of problems. The seventh paper identifies some of the issue areas confronting commodity policy: instability in an interdependent international economy; side effects of some of the regulatory aspects of past commodity programs; protection against natural and economic disasters; and designing programs that are simple to understand and manage and which permit as much managerial freedom and market flexibility as possible. The authors review three alternative concepts which have evolved to meet program objectives—price supports and marketing quotas; price support loan programs; and voluntary programs—and analyze their strengths and weaknesses for dealing with the issues and realities of the eighties.

The eighth paper takes an historical look at the social and political environment that has shaped agricultural legislation and the characteristics of that environment likely to be important in 1981. Based on extensive interviews with constituent groups, the paper examines the policy process and the participants—people and organizations—in that process.

The final paper outlines a broadened policy framework for dealing with disparate, fragmented issues and concerns growing out of the changes suggested in the earlier papers. After reviewing the issues and concerns that converge under the general rubric of “food and agricultural policy,” the paper presents a list of policy goals that appear to be widely espoused and that would be consistent with an overall policy objective of assuring food security and the nutritional well-being of the Nation’s population. The paper suggests some criteria for sorting out priorities among goals of food and agricultural policy. It also illustrates how a well-understood and accepted food policy could provide a clearer sense of mission and direction to major program components of the U.S. Department of Agriculture and serve as a powerful tool for effective program management.

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